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CONFERENCE CALL PARTICIPANTS

Nelson Ng, RBC Capital Markets

Mark Strouse, J.P. Morgan

Ben Kallo, Robert W. Baird & Co.

Colin Rusch, Oppenheimer & Co.

PRESENTATION

Operator

Good morning. My name is Casey and I will be your conference operator today. At this time I would like to welcome everyone to the TerraForm Power 2018 Second Quarter Results Webcast and Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question-and-answer session. If you would like to ask a question during this time, simply press star then the number one on your telephone keypad. If you would like to withdraw your question you may press the pound key. Thank you. Mr. Chad Reed, Director of Investor Relations, you may begin your conference.

Chad Reed, Director, Investor Relations

Thank you, operator. Good morning, everyone, and thank you for joining us for our 2018 second quarter results conference call. I'm joined today by John Stinebaugh, our Chief Executive Officer, and by Matt Berger, our Chief Financial Officer.

Before we begin I would like to remind you that a copy of our press release, investor supplement, and letter to shareholders can be found on our website. I also want to remind you that we may make forward-looking statements on this call. These statements are subject to known and unknown risks and our future results may differ materially. For more information, you're encouraged to review our regulatory filings available on EDGAR and on our website.

With that, I now turn the call over to John.

John Stinebaugh, Chief Executive Officer

Thanks, Chad.

Now that we've completed the acquisition of Saeta, TerraForm Power's portfolio stands at over 3,600 megawatts, 40% larger than when Brookfield assumed control of the company late last year. Our high-quality wind and solar assets span 12 geographic regions. With an average asset age of five years and with over 95% of our production contracted for an average of 14 years, our fleet is young and our cash flows are stable.

Going forward, we have a clear path to deliver annual dividend per share growth of 5% to 8% through 2022 while maintaining our target payout ratio of 80% to 85% of CAFD. As detailed in our recently-updated corporate profile that is available on our website, this path is built upon four pillars: Cost savings of $25 million in corporate overhead and operations and maintenance fully achieved on a run-rate basis by the first half of 2019; revenue improvement of $20 million from increasing the performance of our wind and solar fleets to our long-term average generation targets; organic investments in our existing fleet and add-on acquisitions that contribute $30 million in CAFD funded by retained cash flow, project-level debt, and the potential sale of non-core assets; and finally, the accretion from the Saeta acquisition. Importantly, since the execution of our business plan does not require any material equity issuance, our ability to achieve our growth target and enhance shareholder value remains in our own hands, independent of equity market dislocations.

With regard to our operations, in early August we're pleased to report that we executed an 11-year framework agreement with an affiliate of General Electric to provide us with long-term service agreements for turbine operations and maintenance as well as other balance of plant services for our 1.6 gigawatt North American wind fleet, subject to customary closing conditions and consents. The LTSAs will leverage GE's proprietary technology to improve and optimize turbine performance in order to increase production from our wind fleet. The LTSAs include a combination of resource-adjusted production guarantees and availability guarantees for all of our turbines, which are designed to improve upon historical resource-adjusted production levels and are consistent with our long-term average generation targets, once fully implemented after a transition period of nine to twelve months. Furthermore, the LTSAs lock in cost savings at an amount that is consistent with achieving our targeted cost savings and is $20 million less than the comparable amount for our wind fleet in 2017. While there will be a modest amount of transition costs and downtime to implement the LTSAs, we expect to begin realizing cost savings in the first half of 2019, ahead of our stated goal of phasing in these operational savings over two to three years.

With respect to our solar assets, we continue to make progress on our performance improvement plan, with a goal of increasing energy production to levels that are consistent with our long-term average generation target. As of now, we have completed infrared scans of most of our solar fleet to identify issues that are negatively impacting performance at the asset level and opportunities to increase production. Our goal is to implement remediation plans for all of our assets by the end of the first quarter of next year so that we can realize increased production in 2019.

As of July, we are pleased to report that we have relocated our employees to our headquarters in New York City. Nearly all of our senior and mid-level positions have been filled and we expect that most contract workers will be rolling off by the end of the third quarter. With the close of Saeta acquisition, we will utilize our new office in Madrid as our platform for growth in Europe.

In terms of growth initiatives, in our corporate profile we identify approximately $500 million of organic investment opportunities within our existing portfolio of assets. These opportunities include repowerings and expansions of our wind and solar assets. We also have opportunities to buy-out minority partners that own interests in our projects, including options to buyout tax equity investors after a certain number of years that are typically at fair market value. Finally, in conjunction with previous acquisitions, we have 500 megawatts of rights of first offer to acquire projects owned by third parties.

During the second quarter, we progressed a number of these organic growth initiatives. We entered into a letter of intent to work exclusively with a local developer on an expansion of our existing Tinkham Hill Project in Massachusetts. The 2.5 megawatt expansion project is contiguous to our existing solar farm and is projected to yield a levered return at the high end of our target range with substantial completion expected by year end. We also closed the previously announced acquisition of a 6 megawatt portfolio of operating distributed solar generation assets located in California and New Jersey pursuant to a right of first offer with a third party. Expected returns on this investment are in line with our targeted equity returns with potential upside from executing our business plan. In addition, in July, we executed a buyout of a tax equity partner in a portfolio of solar projects. The initial $2 million transaction is expected to yield strong returns, well in excess of currently available third-party market transactions.

Following the settlement of our tender offer whereby we acquired 95% of Saeta, we closed on the minority squeeze-out on July 2nd, increasing our ownership to 100%. Importantly, we expect to immediately integrate Saeta into TerraForm Power and realize synergies from the transaction. At the outset, we have identified cost savings as a result of eliminating public company costs as well as potential reductions in O&M expense. Similar to TerraForm Power's North American assets, we believe there will be opportunities to renegotiate some of Saeta's outsource contracts over the next few years and realize additional cost savings. We believe these two opportunities will yield up to €5 million of annual savings.

Now I'll turn the call over to Matt.

Matt Berger, Chief Financial Officer

Thanks, John.

During the second quarter, our portfolio performed slightly below expectations, delivering adjusted EBITDA, net loss and CAFD of $128 million, $28 million and $30 million, respectively. This represents an increase in adjusted EBITDA of $11 million, an increase in net loss of $26 million, and an increase in CAFD of $5 million compared to the same period last year. The increase in adjusted EBITDA was attributable to the contribution from Saeta and increased generation from our solar business, primarily due to improved resource. These factors were partially offset by a decrease in production from our wind assets and lower net pricing in Texas. The increase in net loss was driven by a gain realized from the sale of most of our UK portfolio in the second quarter. In addition to the increase in adjusted EBITDA, CAFD was also positively impacted by interest expense savings from our Q4 re-financings from 2017.

In the second quarter, our North American wind generation was lower than expected, whereas production from our North American solar fleet was largely consistent with expectations. Wind production was impacted by greater than normal maintenance, including blade inspections and repairs, as well as some residual impacts related to the Raleigh wind turbine outage. Going forward, the LTSAs with GE are expected to provide us with protection against operational issues such as these.

Following the close of the Saeta acquisition, Moody's upgraded our corporate credit rating from B1 to Ba3. To support its upgrade, Moody's specifically cited the upsizing of the equity issuance to fund the Saeta acquisition to $650 million. This is expected to allow TerraForm Power to reduce its reliance on corporate debt and improve key credit metrics, including reducing its pro forma corporate debt-to-cash flow ratio towards its 4.0x to 5.0x target range.

In May, we re-priced our $350 million Term Loan B at a 75-basis point reduction in the spread to LIBOR, cost of LIBOR plus 200, yielding projected annual savings of approximately $2.5 million. Furthermore, we are making significant progress in executing the $350 million non-recourse debt component of our permanent financing plan for the Saeta acquisition. We closed the first project financing of certain of our unencumbered assets in June, yielding net proceeds of $83 million. In addition, we have launched the second financing, which is expected to net $70 million and close later this summer. Over the next six months, we plan to execute two more project financings to raise the remainder of the $350 million of proceeds. Upon expected completion of the permanent financing plan for the Saeta acquisition, TerraForm Power would restore its corporate liquidity to $900 million and would have ample dry powder to continue pursuing opportunistic acquisitions originated by Brookfield.

Now I'll turn the call back to John.

John Stinebaugh, Chief Executive Officer

Thanks, Matt.

I'd like to close by discussing the impacts of recent policy changes on TerraForm's assets and growth prospects. Solar and wind power have enjoyed an impressive run over the last decade, with nearly 200,000 megawatts deployed in our target markets of North America and Western Europe. Over the last five years, renewables have transitioned from a marginal resource requiring meaningful policy support to the lowest-cost provider of incremental generation in many regions; however, despite this level of market penetration, there has been considerable divergence in government policy towards renewables over the past few months.

On the one hand, the newly formed coalition government in Spain, headed by the center-left Socialist Workers' Party, the PSOE, had traditionally been a major advocate for renewable power, has already demonstrated increased support for renewables since coming into office. The PSOE merged the Ministry of Energy into the newly-created Ministry of Ecological Transition. Last week the CNMC, which is the regulator for markets and competition, issued a white paper supporting a 7.04% to 7.14% rate of return for the next six-year regulatory period, a reduction of less than 50 basis points from the current level. Following input from stakeholders, the CNMC will make its formal recommendation regarding the regulated rate of return in the next few months. To the extent the coalition government does not pass a law that changes the regulated return, the current rate of 7.4% will remain in place.

On the other hand, Ontario's new government, which ran on a platform of reducing electricity rates in the province by 12%, has recently announced its intention to terminate over 700 renewable power projects that were previously awarded to developers. TerraForm power has no development projects in Ontario. We do have five utility-scale projects and several small distributed generation projects in the province, all of which are operational. Nonetheless, we do not expect to be materially impacted by this announcement. We are confident that a wholesale reduction in Ontario's feed-in-tariff for operational renewable projects is unlikely. This would have significant long lasting negative implications on future investment in Ontario and on the stakeholders of various projects, which include Ontario-based banks and life insurance companies, as well as Canadian pension funds. Furthermore, our exposure to the Ontario market is limited, as our projects in the province account for approximately 4% of our capacity, of which only 2% earn revenues under the feed-in-tariff program.

Finally, tariffs levied earlier this year by the US government on imported solar cells and modules has not led to the predicted equipment price increases. Shortly after the tariffs were implemented, the Chinese government suspended issuance of new quotas for solar projects within the country. As a result, there is now substantial global overcapacity of panels as the Chinese market had consumed over 50% of panel supply in 2017. Considering declining balance of plant cost, the net result is that capital cost for solar projects in the US has actually declined in recent months. Since our solar fleet is fully operational, this has not impacted TerraForm Power; however, it has increased risk for solar developers who must forecast module prices and capital costs when bidding into RFPs for long-term contracts to support their development pipelines.

The transformation of global power grids is still in very early stages and will require hundreds of billions of investment over multiple decades. Going forward, we believe there will be continued uncertainty on the regulatory front. As we build our business, we will remain vigilant and seek to mitigate our exposure to this risk by diversifying our portfolio and maintaining an active regulatory affairs presence in our markets. Furthermore, we will look for opportunities to deploy capital at attractive rates of return. Considering Brookfield's demonstrated willingness to provide support as we pursue investments, we believe we are well positioned to take advantage of the opportunities that will inevitably arise. As always, we look forward to updating you on our progress in executing our business plan over the coming months.

This concludes our formal remarks. Thank you for joining us this morning. We'd be pleased to take any questions at this time.

QUESTION AND ANSWER SESSION

Operator

Thank you. As a reminder, if you would like to ask a question at this time, please press star followed by the number one on your telephone keypad. Once again, that's star then one if you would like to ask a question. Your first question comes from the line Nelson Ng with RBC Capital Markets. Please go ahead, your line is open.

Nelson Ng, RBC Capital Markets

Great, thanks. First question relates to the framework agreement with GE. Is there an option to add additional wind facilities into that contract?

John Stinebaugh, Chief Executive Officer

Hey, Nelson. It's John. There is not an explicit option to add new projects at the terms that were negotiated; however, we obviously have spent a lot of time working with GE, have built a very good relationship and think we've got a very constrictive partnership with them with this agreement, so we would certainly look to talk with them about adding future projects at terms similar to what we've negotiated here.

Nelson Ng, RBC Capital Markets

Okay. Got it. And then just in terms of the Saeta acquisition, I think you might have touched on it in the past but are you hedging any of the, I guess, forecasted CAFD back to US dollars or is the plan to kind of keep some cash and euros for future investment opportunities there?

Matt Berger, Chief Financial Officer

This is Matt. We have hedged a majority, a vast majority of our net investment in Saeta, and a portion of those hedges are timed to coincide with CAFD, so a majority of the CAFD that we expect to report from Saeta is hedged over the next 18 months.

Nelson Ng, RBC Capital Markets

Okay. So it's more of an 18 months rolling perspective?

Matt Berger, Chief Financial Officer

That's right, currently. We may seek to extend that, depending on pricing in the market and our view.

Nelson Ng, RBC Capital Markets

Okay. And then in terms of Saeta's estimated $5 million of cost savings, I guess what's the rough run rate that would be realized at the end of this year versus, I guess, future years? I presume it'll mainly be public company costs this year. Roughly what does that equate to?

John Stinebaugh, Chief Executive Officer

The public company costs are going to be probably about a third of that level, and those will phase in because there will be some severance costs associated with that. The remainder is going to be O&M savings, which will be realized, ah, right now we're doing a detailed analysis of the O&M contracts. There is not as much opportunity as there is in the TerraForm North American portfolio because the contracts are closer to market, so we're doing a detailed analysis of when we can break those contracts, and we're leveraging the work that we've done in negotiating this agreement with GE to develop a view in terms of pricing that we can reasonably expect to achieve, but we're confident that we'll be able to hit at least $3.5 million of cost savings on the O&M side. But that will take a little bit of time to phase in, so it's probably over the next couple years.

Nelson Ng, RBC Capital Markets

Okay, got it. And just one last question before I get back in the queue: For the Texas wind facilities, could you remind me whether those facilities are hedged? I just noticed that the average realized price was about $14 per megawatt hour, down from $21, so I wasn't sure whether it was hedged or whether they saw some curtailment or things like that.

Matt Berger, Chief Financial Officer

They are hedged. The hedge is at the node and there's a differential between the basis of the hedge and the price received, so there's some mismatch, and that's what leads to some volatility in the average price realized, but they are technically hedged.

Nelson Ng, RBC Capital Markets

Okay, got it. Thanks.

Operator

Your next question comes from the line of Mark Strouse with J.P. Morgan. Please go ahead, your line is open.

Mark Strouse, J.P. Morgan

Good morning. Thank you very much for taking our questions. Just a couple quick ones for me. Regarding the LTSA, you talk about beginning realizing cost savings in the first half of 2019. Is that when we should expect kind of the full run rate of savings or will that be kind of phased in over a transition period beginning in 2019?

John Stinebaugh, Chief Executive Officer

Yeah, I think we should realize the full savings by, call it, mid-2019. So there's going to basically be the handover to GE, which will take a number of months, and then once we hand over to GE we'll begin realizing savings. There are some contracts with other vendors other than GE that will take a little bit more time in order to be able to turn those over to GE. It's possible we could negotiate that earlier but we think by mid-2019 we should be fully operating projects under the LTSA agreement and realizing these savings.

Mark Strouse, J.P. Morgan

Okay. And then regarding the project financing that you closed in June, can you just talk about the pricing that you saw there and then what your expectations or your assumptions are for the, ah, I think you said the three other deals that you have pending?

John Stinebaugh, Chief Executive Officer

It's John. In terms of the deal that we negotiated, it was basically a portfolio of solar projects and it was a project financing with debt that fully amortized over the contract life and the terms on it, we think, are very attractive, roughly treasuries plus 165 in terms of cost.

Mark Strouse, J.P. Morgan

Okay. Okay, that's it for us. Thank you very much.

Operator

Once again, if you would like to ask a question, please press star followed by the number one on your telephone keypad. Your next question comes from David Katter with Baird. Please go ahead, your line is open.

Ben Kallo, Robert W. Baird & Co.

Good morning. This is Ben Kallo from Baird. I had a question on developers and what you're seeing in the US as far as potential acquisitions, what the market is right now. And then I have a follow up as well. On both wind and solar.

John Stinebaugh, Chief Executive Officer

Okay. It's John. We're seeing a lot of M&A activity in the development community, I'd say more so on solar but also on wind, and it's really driven by a couple of factors. Probably the largest is development is becoming more capital intensive. Whether it be cash for LCs, the developers have to post for interconnection agreements for PPAs. And if they're doing financial hedges it's, well, more than PPAs, is really just increasing the table stakes of development. So a lot of the developers who were private and didn't have sponsors with access to significant capital are looking to basically pair up with sponsors.

So there's a lot of opportunities, whether it be by development platforms, there's opportunities to buy stakes in development platforms. We also are seeing opportunities where there are some developers or some integrators and O&M providers who do do development work that their core business is not to own assets but they are able to originate projects and are looking to pair themselves up with capital partners who can basically fund their development pipeline. And we look at that as a particularly attractive opportunity because, ah, especially for the C&I space where projects are pretty individual and to sort of staff yourself up in order to address the North American market would require quite a bit of overhead. We can align ourselves with a number of these partners potentially and provide them with surety to be able to monetize projects they develop, the ability to operate projects on a going-forward basis, and an access, from our standpoint, to pipeline. So we're looking at a few of those types of transactions in order to build our pipeline and increase the visibility of our pipeline. I'd say it's more so on the solar side. We are seeing opportunities on the wind side. On the wind side it's probably more one-off projects that we're seeing right now versus development platforms.

Ben Kallo, Robert W. Baird & Co.

Following up there, you know, I think that we've heard that returns were getting pretty depressed because of the competition from different utilities or private equity coming into the market. So is this less competitive in the space you're looking at? I guess that's what you said, because of the size of the deals, meaning better returns for you.

John Stinebaugh, Chief Executive Officer

I couldn't hear. You were asking if it's less competitive if what?

Ben Kallo, Robert W. Baird & Co.

Than the utility scale space.

John Stinebaugh, Chief Executive Officer

Oh, for the C&I deals? Is it less competitive?

Ben Kallo, Robert W. Baird & Co.

Yes.

John Stinebaugh, Chief Executive Officer

Okay. Yeah, no, I think the C&I deals are less competitive because, first of all, the deals, in a lot of cases, are not going to be structured deals with tax equity in place as well as back leverage in place. So what we can do is we can buy projects on an unlevered basis and then leverage the relationships that we've got with tax equity as well as senior debt providers to optimize the capital structure and get greater return. And also, we then provide benefit to the developers, because they no longer have to sort of warehouse projects where they can get to enough scale to do the structuring to put that in place to execute. So we can provide them with benefits by lightening up the amount they have to warehouse on their balance sheet. But, in general, I'd say it's at least 100 basis points, maybe 150 basis points better than what we think we can get in utility scale.

Ben Kallo, Robert W. Baird & Co.

And then my final question, you know, with the acquisition, the Saeta acquisition, your geographic mix kind of skewed a little bit more than I think some people thought. Can you just talk through how you're looking at acquisitions or development by geography going forward?

John Stinebaugh, Chief Executive Officer

Sure. The target market for TerraForm is North American including Mexico and Europe, so the Saeta acquisition was the establishment of a platform with scale in Europe, and going forward we're basically going to look for opportunities in both markets. And we'll look to acquire operational assets, we'll look to acquire assets at completion or NTP. Not looking at this stage to do early-stage development. But what we will look to do is we're somewhat agnostic in terms of whether we're going to invest capital in North America or Europe. We will look for the best opportunities and we'll be opportunistic and don't really have any hard and fast sort of targets in terms of what size of the portfolio we want for US versus Europe or by technology. It's going to be driven by where we think we can get the best risk-adjusted returns and historically we've seen that will change over time.

Ben Kallo, Robert W. Baird & Co.

Sounds good. Thank you.

Operator

Your next question comes from Colin Rusch with Oppenheimer. Please go ahead, your line is open.

Colin Rusch, Oppenheimer & Co.

Thanks so much. Can you talk a little bit about the volume of inbound calls that you guys are getting from developers that are looking for some support in finishing projects and potentially selling projects to you guys?

John Stinebaugh, Chief Executive Officer

Colin, it's John. Activity is pretty robust right now. And I'd say it's many flavors. We've seen probably, in the last six or nine months, an increase in opportunities to acquire development platforms, for the reasons that I said that we think are driving consolidation, but we are seeing a lot of opportunities to buy projects. And I think that's driven by a number of different factors, whether it be developers who have gotten projects to NTP or completion and are looking to monetize in order to reinvest in their pipeline. In some cases there are strategics that are looking to exit the renewable business and selling portfolios of projects. So there's a number of different drivers. So I'd say that probably the one thing that's noticeable, there has been quite a bit of activity on the asset side for the last year, maybe longer, but what's picked up more recently is there's a lot of development platforms that are on the market.

Colin Rusch, Oppenheimer & Co.

Perfect. And then can you talk a little bit about the evolution of the microgrid technology from your perspective in terms of that being a viable area for investment and how you might be able to use your existing real estate position to lever into some more robust installations as we go forward?

John Stinebaugh, Chief Executive Officer

Sure. We think microgrid technology is getting to the point where it's going to reach an inflection point and increase the rate of adoption. When I'm talking about microgrids, I'm talking about distributed generation, primarily solar, combined with batteries combined with potentially even backup generation or fuel cells. So, just being able to integrate that into a solution for a customer. And we think there's a lot of opportunities to partner with Brookfield on a number of fronts. On the one front that I've talked about in the past with real estate, we obviously own a lot of real estate, and with particularly real estate with large rooftops, there's an opportunity to deploy solar and to the extent the solar is producing power at less than retail rates there can be a win-win benefit for both Brookfield affiliates. Same with potentially industrial real estate, which has very large footprints. We're also seeing potentially opportunities with some of the infrastructure assets that Brookfield owns like datacenters. Datacenters, we think, are particularly an attractive application for microgrids where you could combine solar, batteries, and backup generation and provide that through some sort of contractual arrangement for the benefit of both parties.

Colin Rusch, Oppenheimer & Co.

That's super helpful. Thanks so much.

Operator

There are no further questions at this time. Ladies and gentlemen, thank you for joining today. This concludes today's conference call and you may now disconnect.